

Our Mission

We provide information, assistance, and recommendations to improve Arizona government for its citizens.

Our Vision

To make a positive difference by promoting better government.

Our Authority

The Arizona Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. We provide independent and impartial information, assistance, and recommendations to improve state and local government operations.



2014

Year Ended June 30, 2014

Office makes a positive difference by promoting better government

We are committed to making a positive difference in the way our State and its local governments operate, and we focus on helping Arizona government improve accountability and effectively use public monies. We accomplish this through our audit and oversight activities by providing independent and impartial information and recommendations in our reports, at briefings and hearings, and by providing technical assistance to government officials who manage operations. The Auditor General is assisted by a Deputy Auditor General and approximately 190 office professionals in fulfilling these responsibilities.

Office provides effective information and recommendations—As the State's independent auditor, our audit and oversight responsibilities focus on conducting audits and issuing effective reports. Our reports focus on various ways that Arizona government can improve. During fiscal year 2014, we issued 204 reports that covered various matters regarding state agencies, universities, school districts, counties, and community colleges (see the table on page 2). These reports can be broadly categorized into three main types described in the textbox below. In addition, the Legislature requires us to prescribe standards and procedures for uniform accounting and budgeting systems for school districts and other local governments.

Special audits requested by the Legislature—The Legislature relies on our Office to provide useful information to help legislative members make better decisions in governing our State. This year we issued special reports on:

- School district spending, which provided details about how school districts spent their monies both in the classroom and for other operations.
- Children support services foster home recruitment-related services contracts, which included several recommendations for improving the contracting process.
- Transportation services for child protective services clients, which recommended the implementation of a performance measurement system to manage and evaluate these services.
- Information technology (IT) procurement, which compared selected Arizona practices to other states; assessed best practices for intellectual property; and analyzed IT platform standardization and its impact on the procurement process.

Office report types

Performance and special audits—Reports focus on how effectively, efficiently, and economically state agencies and school districts conduct business and include special studies the Legislature requests.

Financial and federal compliance audits—Reports are about the accuracy of annual financial statements and on internal control and compliance over financial and federal grant regulations.

Procedural and compliance reviews and investigations—Reports show whether entities have fully complied with expenditure limitations; whether school districts have fully complied with certain standards over financial operations; or results of special fraud investigations.

Office reports issued by report type and government

Fiscal year 2014

Report type	State agencies	Universities	School districts	Counties	Community colleges	Total reports
Performance and special audits						
Performance audit	10		12	1		23
Sunset audit	1					1
Audit follow-up letter	22		30	1		53
Special legislative requests	3		1			4
Financial and federal compliance audits						
Financial statement	4	3		11	10	28
Internal control	3	3		11	10	27
Federal compliance	1			11	8	20
Procedural and compliance reviews and investigations						
Special investigation			2	1		3
Procedural review	6					6
Compliance review	1		9	1		11
Agreed-upon procedures		1		7	1	9
Expenditure limitation	—	—	—	8	11	19
Total reports	<u>51</u>	<u>7</u>	<u>54</u>	<u>52</u>	<u>40</u>	<u>204</u>

For fiscal year 2015, the Legislature directed our Office to conduct two additional special audits addressing other aspects of children support services and engage an independent consultant to examine the current child safety system. Our first report, issued October 2014, focused on the State's use of congregate care and methods the new Arizona Department of Child Safety (ADCS) should consider to reduce its use. Our second report, due in March 2015, will review various areas related to child abuse and neglect cases in Arizona compared to other states. The consultant's report, due in July 2015, will consider best practices to improve service delivery and provide consultation on the effective establishment of ADCS, focusing on implementation challenges.

State agency performance audits—Our 2014 performance audits and sunset reviews covered several state agencies and boards that provide a variety of services to Arizona citizens. These reports included many recommendations to help state leaders provide services and conduct operations more effectively and efficiently. For example, our award-winning Arizona Department of Financial Institutions (Department) audit made recommendations to help the Department enhance its examinations process to place greater emphasis on high-risk financial enterprises, improve its complaint-handling process to ensure complaints are appropriately processed in a timely manner, and reevaluate its fee structure to better align with its costs. This audit earned a Certificate of Impact from the National Legislative Program Evaluation Society (NLPES) for its demonstration of significant impact on public policy. In addition, we leveraged the expertise of audit staff with varied backgrounds including performance audit, financial audit, and IT audit to conduct comprehensive audit work at several state agencies and make recommendations in a wide range of areas. For example, our performance audit of the Arizona Game and Fish Department provided recommendations to ensure the prudent stewardship of public resources, improve the process for issuing big game hunting permits, and improve the Department's IT systems management process. Further, our IT procurement practices audit provided recommendations that included developing IT-specific contract templates with applicable terms and conditions and modifying intellectual property terms and conditions to ensure that the rights included in a particular IT solicitation are appropriate based on who pays for the IT development costs.

School district performance audits—School district performance audits are yet another example of how we have a positive impact, identifying issues that affect the accountability for and effective use of public monies. Our reports highlighted best practices at efficiently operated districts such as properly overseeing operational areas, providing services in cooperation with neighboring districts, and closing unneeded schools and buildings to reduce costs. In addition, our reports included various recommendations for improvement at some districts that:

- overstaffed operational areas making them more costly than necessary.
- lacked adequate controls to minimize the risks of errors and fraud allowing fraudulent and inappropriate activities such as overpayments and theft to occur without timely detection.

- over-reported mileage resulting in the overfunding of student transportation.
- failed to ensure that bus driver certification requirements were met or that bus maintenance was performed creating a potential student and public safety risk.
- had large amounts of excess square footage resulting in increased plant operations costs.
- entered into poorly designed solar power contracts resulting in the sale of excess generated power at a loss.
- poorly managed the food service program resulting in the need for a large program subsidy.
- paid performance monies for goals that were not met.

Financial and federal compliance audits—These audits focused on the accuracy of state and local government financial statements along with evaluating the effectiveness of internal controls and compliance with required accounting practices and state and federal laws and regulations. We provided the State's agencies, universities, counties, and community colleges with various recommendations to help them report financial information accurately, keep their electronic data safely protected, and ensure they will continue to receive federal grant monies that help to provide services such as healthcare and education to Arizona citizens. Included in these reports is our annual state-wide report, which addresses the State's controls over financial reporting and federal compliance.

Special investigations—Special fraud investigations result in individuals being held responsible for their unlawful and inappropriate use of public monies. We issued three reports during fiscal year 2014. Our investigations revealed that a Paradise Valley Unified School District high school bookstore manager misused more than \$72,500 of district monies, embezzling \$67,162 for her own purposes. On October 18, 2013, as part of a plea agreement, the school bookstore manager pled guilty to felony theft and was sentenced to 3 years of probation and ordered to pay full restitution totaling \$72,511. In addition, our investigations revealed that a Yavapai County Education Service Agency (Agency) finance administrator created false invoices totaling \$19,473 for the Agency to receive reimbursement for unallowable costs under Arizona's American Recovery and Reinvestment Act-State Fiscal Stabilization Fund grant. The finance administrator submitted the false invoices to the Arizona Governor's Office of Education Innovation, which reimbursed the Agency from grant monies. On October 21, 2013, the finance administrator was indicted on three felony and misdemeanor charges related to fraud schemes, misuse of public monies, and impeding an audit. Finally, our investigations revealed that a Kingman Unified School District teacher employed a fraud scheme and embezzled \$12,918 by creating false invoices to arrange for customers to issue checks payable in his name. On October 23, 2014, the teacher pled guilty to felony theft and was sentenced to 2 years of probation and 200 hours of community service, and he paid full restitution totaling \$12,918.

Audit followup—After audits are completed, we follow up on state agency, local government, and school district efforts to implement our recommendations. We report on the status of these efforts to legislative members and governing bodies. Specifically, following the release of state agency performance audits and/or sunset reviews, we conduct followups at 6 and 18 months; in fiscal year 2014, more than 95 percent of our recommendations were implemented. We also conducted follow-up visits at school districts to determine their status in implementing our audit recommendations. Cumulatively, districts reported saving millions of dollars by implementing audit recommendations such as consolidating bus routes; eliminating payments for unproductive time; rebidding poor contracts; recovering overpayments made to vendors; reducing administrative, plant operations, and transportation positions; and reducing electricity costs. Finally, our annual financial and federal compliance audits allow us continual contact to provide ongoing assistance that helps ensure state and local governments implement our recommendations.

Office provides helpful technical assistance—Our Office impacts governments through ongoing assistance that we provide through webinars, alerts and informational memorandums, and meetings. For example, we have continued our effort to help school districts lower their training costs by providing

Making a positive difference

- State agencies, school districts, and other local governments have consistently implemented more than 95 percent of our performance audit recommendations within 2 years.
- Federal compliance audits of the State's agencies, universities, community colleges, and counties verify appropriate spending of federal monies. In our audits covering fiscal year 2013, these entities spent over \$13.6 billion in federal monies to provide services such as healthcare and education programs to Arizona citizens.
- Technical assistance we regularly provide to the State's agencies and local governments helps to improve state government effectiveness, efficiency, and accountability.

training via free, live webinars. In addition, we conducted six free regional small school district workshops throughout Arizona. These workshops were the first in a series to help school districts with fewer than 1,500 students strengthen their internal controls and improve financial management practices. The response to the workshops has been highly favorable.

We also have worked closely with the State and local governments in our financial statement and federal compliance audits to help improve the timeliness and accuracy of financial statements and federally mandated compliance reports. Investors, financial institutions, and federal agencies continue to demand accurate financial information reports as quickly as possible. The State's size and complexities require extraordinary coordination between all state agencies and universities. Through our working together with the Arizona Department of Administration and other state agencies, the State has continued to issue its audited financial statements earlier over the last 4 years. Also, the State has met the federal requirements for issuing its federal compliance audit reports for the past 4 years.

We continually provide assistance through budget preparation packages, alerts and informational memorandums, annual financial reporting guideline packages and report templates, and meetings. Our continual presence while auditing state agencies and local governments places our professionals in a unique position to provide ongoing useful and consistent technical assistance that helps Arizona government improve effectiveness, efficiency, and accountability.

Office professionals have excellent reputation in government auditing

The Office conducts high-quality work and demonstrates leadership in the government auditing field. As a result, we have an excellent national reputation among auditing organizations, including our recognition for the quality of our work and involvement in professional organizations.

Office is recognized for high-quality work—One formal recognition of our work quality and national reputation is our National State Auditors Association (NSAA) External Peer Review. This review represents an independent “audit” of our Office. Specifically, the review measured our compliance with professional standards when we performed our audit work and issued our reports. After reviewing our fiscal year 2013 audit activities, the NSAA review team issued a report indicating that our Office has an appropriately designed quality control system that helps ensure that we follow required *Government Auditing Standards*. Our External Peer Review results give us the highest mark a state audit organization can receive in such a review.

Another recognition of our high-quality work is the NLPES Certificate of Impact for our Arizona Department of Financial Institutions performance audit and sunset review. Based on the audit report's impact from both the legislative and public perspectives, the NLPES presented us with this award for providing information to our Legislature regarding impactful program improvements that can result from the implementation of our recommendations.

Office professionals participate in professional organizations—Our Office professionals stay involved and participate in national, state, and local professional organizations, which demonstrates their expertise, energy, and enthusiasm as leaders in the government auditing field. As part of our participation in professional organizations, we give presentations and participate in discussions that help with standard-setting, oversight and monitoring, best practices sharing, and training in many technical areas, such as accounting principles and government auditing standards. During the fiscal year, our Office gave more than 35 presentations to professional organizations or government officials.